

**REGULAR STATE BANKING BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

March 10, 2005

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 9:00 a.m., Thursday, March 10, 2005, by conference call.

MEMBERS PRESENT: Timothy J. Karsky, Chairman *(Office)*
Launa Moldenhauer, Member *(Office)*
Roger Monson, Member *(Finley)*
Anita Quale, Member *(Watford City)*

MEMBERS ABSENT: Ron Braseth, Member
Bill Daniel, Member
Lorren Henke, Member

ALSO PRESENT: Robert J. Entringer, Secretary *(Office)*
Doug Grenz, Chief Examiner – Banks *(Office)*
Jim Dunkel *(Fargo)*
Steve Stenehjem *(Watford City)*
Mary Johnson *(Fargo)*
Tony Ulher *(Fargo)*

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on January 13, 2005. **It was moved by Member Monson, seconded by Member Quale, and unanimously carried, with Members Braseth, Daniel, and Henke absent, to approve the minutes as published.**

FIRST INTERNATIONAL BANK & TRUST, WATFORD – APPLICATION TO ESTABLISH A FACILITY AT 4554 38TH AVE S, FARGO

Assistant Commissioner Entringer indicated the application was received and deemed complete on February 8, 2005, and was published pursuant to the joint publication guidelines in Section 13-02-05-05.1 of the North Dakota Administrative Code in the *McKenzie County Farmer* on February 2, 2005, and *The Forum* on February 7, 2005. The comment period expired on February 22, 2005, and there were no comments or requests for copies of the application.

Assistant Commissioner Entringer reviewed the statutory criteria found in Section 6-03-13.3 of the North Dakota Century Code, which requires the Board to consider the convenience, needs, and welfare of the people in the community and area served; the financial strength of the bank in relation to the cost of establishing and maintaining the separate facility; and whether other banks would be seriously injured by approval of the application. Additionally, North Dakota Administrative Code Chapter 13-02-05 sets forth the requirements for providing an application to the Department and the State Banking Board, and the Department has determined that the applicant has complied with all the requirements of the North Dakota Administrative Code, deeming the application to be complete.

Assistant Commissioner Entringer asked Jim Dunkel to review the remainder of the application for the Board. SVP Dunkel indicated the section of Fargo the bank is looking at expanding into is south and west of the section of the Interstate which the City of Fargo has determined to be a high growth area. Chairman Karsky referred the Board members to Exhibit 5, which is a map showing the area being referred to. SVP Dunkel indicated on the map you can see the area denoted as Osgood, which is projected to have a population of 4,000, which is larger than many of the communities the bank is presently located. Pointe West already has a population of greater than 1,000, and Amber Valley has over 300 apartment units and quite a bit of commercial development. SVP Dunkel indicated Woodhaven has a retirement development, and to the right is where the technology department of Microsoft is located. The Eagle Run area used to be a field and now has over 400 homes and 200+ apartment units. SVP Dunkel indicated the whole area the proposed facility is to be located in will have a population of over 10,000 people and many businesses, and no bank is located in the immediate area; although there is one credit union right near the Interstate in the Amber Valley addition. SVP Dunkel indicated the bank has been receiving an apartment survey for a number of years and actually had to develop a new section

within the survey because there has been such significant growth in this area, with over 800 apartment units alone in the area. SVP Dunkel indicated the bank does have a number of clients in that area, as well as clients with a Horace, ND, zip code. SVP Dunkel indicated the bank is finding that people like to bank in the area where they live and do not like to travel long distances to get their banking services.

Chairman Karsky asked SVP Dunkel to review the cost of the facility. SVP Dunkel indicated the cost of the facility with the equipment and land is approximately \$2.3 million. The facility itself will be approximately 6,600 square feet with room for 6 or 7 offices, and approximately 15 employees total on the main floor. SVP Dunkel indicated the basement will be unfinished unless a tenant is obtained.

Assistant Commissioner Entringer reviewed the remainder of his Memorandum, stating that the proposed manager of the facility is Jim Dunkel and he has been employed in the banking/investment arena for over 21 years. The area does not contain any other banking facility and no other banks indicated any opposition to the application; therefore, there does not appear to be any serious injury by approval of this application. Regarding fixed assets for the facility, the bank would be approximately 30% of equity capital, which is well within the limitation of 65% of equity capital set forth in statute. The projections included in Section 6 of the application show the bank is estimating \$4 million in deposits at the end of the first year, growing to \$11 million at the end of the third year. Total loans at the end of the first year are estimated at \$20 million, increasing to \$38 million at the end of the third year. The application indicates the applicant has approximately \$658 million in total assets at the end of 2004, with approximately \$113.5 million in securities and \$479 million in loans. Also at the end of 2004 the bank had approximately \$51 million in capital representing approximately 7.7% of total assets not inclusive of the loan loss allowance of approximately \$6.8 million. The projections on page 4 of the attachment to the application show the applicant expects to lose money the first year of operation, turning a profit in the second year. The projected loss is not expected to adversely impact equity capital, as the capital levels continue to improve as detailed in Section 9 of the application. The projections appear to be well supported and accurate.

Assistant Commissioner Entringer indicated SVP Dunkel reviewed in great detail the convenience and needs aspect of the application, and added that the application includes six letters of support, as well as a letter that the Department

received separate from the application. This information appears to demonstrate that there is a need for a facility in this area of Southwest Fargo.

Also included in the application as Exhibit 10 is a copy of an Exhibit from a previous application which was supplied to the Board showing the number of banks per person in Fargo is one bank for every 2,231 residents, compared to the state average of 1 bank for every 1,500 residents in North Dakota.

Assistant Commissioner Entringer indicated it is the recommendation of the Department that the State Banking Board approve the application by First International Bank & Trust, Watford City, to establish a facility at 4554 38th Ave S, Fargo. Assistant Commissioner Entringer indicated a proposed Order to be signed by Chairman Karsky on behalf of the Board is included with his Memorandum.

SVP Dunkel indicated the FDIC has granted preliminary approval for this application, subject to the State Banking Board's approval.

Member Monson questioned the discrepancy between the projected deposits and loans at the end of the first year, which is \$4 million in deposits and \$20 in loans. SVP Dunkel indicated the office in Fargo has a street limit of \$4 million for loans, and he personally has approximately \$43 million in his portfolio that he services, of which approximately \$10 million will be transferred over to this proposed new location. SVP Dunkel indicated with the higher lending limit they should be able to make that kind of growth quite easily, as they have been able to in the past several years. SVP Dunkel indicated deposits are somewhat more of a struggle to obtain than loans, but it is based on their experience in the West Fargo market. SVP Dunkel indicated with the growth in that area he expects to be able to achieve the projected loan growth quite easily.

Member Monson asked how long the bank has had an option on the property, and SVP Dunkel indicated the bank has been looking at this property for over a year, as well as other property in the area. SVP Dunkel stated he was not sure when exactly the bank obtained the option on the property, but it has been for some time.

Chairman Karsky asked if approval is granted today, when the bank anticipates starting construction and when the building could be occupied. SVP Dunkel indicated if the progress continues as is, they could break ground very soon and possibly occupy the building by the end of 2005.

Chairman Karsky asked President Stenehjem if he had any comments, and President Stenehjem indicated he appreciated how quickly the Department acted on the application. President Stenehjem indicated they have a lot of construction loans they are looking at for this area of Fargo. President Stenehjem stated they started looking at this property as long as 1½ years ago. President Stenehjem indicated with the way the cities of Fargo and West Fargo have been growing, it became obvious to them in order to maintain their market share they needed to be in this area of town.

It was moved by Member Moldenhauer and seconded by Member Quale to approve the application by First International Bank & Trust, Watford City, to establish a facility at 4554 38th Ave S, Fargo, and to authorize Chairman Karsky to sign the Order on behalf of the State Banking Board. The motion carried by a vote of 4 to 0, with Members Braseth, Daniel, and Henke absent.

President Stenehjem and SVP Dunkel left the conference call at 9:20 a.m.

Tony Ulher and Mary Johnson, representatives of Union State Bank of Fargo, were added to the conference call at 9:25 a.m.

UNION STATE BANK OF FARGO, FARGO – APPLICATION TO RELOCATE ITS MAIN OFFICE FROM 901 40TH ST SW, FARGO, TO 4530 17TH AVE S, FARGO

Assistant Commissioner Entringer reviewed his Memorandum, which indicated the application was received on February 4, 2005, and no publication is required since this is merely a relocation of the main office, rather than approval for a new location. Assistant Commissioner Entringer indicated the North Dakota Century Code does not address the relocation of a main office within the same city for which the charter is granted; however, the Department does require an application in order to review the investment in fixed assets to assure compliance with this statute. Since there is no publication requirement, there is no need for public comment, due to the fact that the charter application would have already given the opportunity to the public for comment.

Assistant Commissioner Entringer stated the application indicates the reason for the relocation is because the present landlord has terminated the lease effective

May 1, 2005. Based on the information in the application, it appears the fixed asset expenditure will result in an investment of slightly less than the 65% limitation. Assistant Commissioner Entringer indicated he has visited with President Johnson and she indicated by the time the building is complete the additional profits will give the bank a sufficient cushion. In addition, President Johnson indicated the bids have come in at approximately \$200,000 less than indicated in the application, which should provide more than enough cushion. Furniture and equipment from the present location will be moved to the new location substantiating the minimal projected expenditure of \$85,000. The application also states \$1 million of additional money will be injected into the bank by the end of the first quarter of 2005. The occupancy expenses projected increased by nearly \$200,000, and the pro forma income statement is projecting an 81% increase in net profits, from \$173,000 to \$313,000. Major factors contributing to the projected increase in income include a 15% increase in loan income, a 13% increase in non-interest income, and a negative provision to the loan loss expense of approximately \$52,000. Significant balance sheet changes projected include a 15% increase in net loans, a 10% increase in deposits, and a 29% increase in equity primarily from a \$600,000 increase in surplus, as \$400,000 was already injected in 2004. The budget assumptions included in the application materials appear to be realistic.

President Johnson indicated the bank's lease was terminated by Noridian, their landlord. President Johnson indicated Noridian has several sites in Fargo and they are attempting to consolidate for their central Medicare processing, in addition to establishing a customer service center. In addition to the bank having its lease terminated, a number of other businesses located in the same building had their leases terminated by Noridian also. President Johnson indicated in the early 1990s the bank also lost its lease, which is where the present Grandma's Restaurant is located, and the current location was intended to be a stop gap location. During its strategic planning, the bank identified the area it wanted to be in was the south to southwest area, and the location they identified as being the optimal location is 45th Street and 17th Avenue, which will enable the bank to service its existing customers as well as garner customers from the southwest area of Fargo which is growing. President Johnson indicated the demographics for the areas surrounding the proposed new location indicate that the growth opportunities will be significant.

President Johnson indicated she did want to discuss the financial performance in addition to what Assistant Commissioner Entringer has presented to the Board. President Johnson indicated in the early 1990s the bank had

stabilized its earnings performance and entered into a planned growth in the late 1990s. One branch was added in 1998 and the bank did absorb some losses for a couple years, but that branch has done very well for the bank. Another branch was added in 2000 and another relocated in 2001. President Johnson indicated the bank had a lot going on during that time and it definitely negatively impacted the bank's earnings. The performance was turned around in 2003 and improved more in 2004; however, due to the termination of its lease, the bank had to write off the leasehold improvements when they were identified and, therefore, they did not beat their budgeted projections. Without that impact from the write-down, they would have beaten their budget and would have projected an even higher return on assets for 2005.

President Johnson indicated the bank's asset quality is very good, with delinquency at 1.44% of loans, and a cushion in the reserve of 1.53% of capital. President Johnson indicated as the bank heads into renewal season they do not see any unforeseen circumstances which should cause a downturn in the asset quality. President Johnson indicated earnings thus far are very good, with earnings of \$90,000, compared to budget of \$46,000. Although they will experience increased occupancy costs, the pro forma was fairly conservative in that area. President Johnson indicated as far as the balance sheet structure, they were also fairly conservative in their projections, not projecting much for deposit growth assuming a worst case scenario where they would have to borrow liquidity and they do not anticipate that significant of a need. President Johnson indicated currently their projections indicate as far as fixed asset limitation they are projecting to come in at about 59% due to the greater profitability, and the numbers are coming in where the cost of the project will be approximately \$250,000 less than projected. In addition, there is about \$600,000 that the holding company can inject into the bank; however, the projections indicate they should be able to operate some time without having to do that. The injection was considered in order to sustain the growth for the bank's risk-weighted asset ratio.

Chairman Karsky asked about the lease of the land for \$83,000, and President Johnson indicated that was correct. Chairman Karsky asked if it would not have been a better option to purchase the land, and President Johnson indicated if it was for sale the bank would have bought it. President Johnson stated in that section of Fargo the developers were calling for land leases and not wanting to sell the land. Chairman Karsky asked what that amounted to per square foot for the lease, and President Johnson indicated it is \$11 per square foot.

Assistant Commissioner Entringer indicated the Department's recommendation is to approve the application by Union State Bank of Fargo to relocate its main office from 901 40th St SW, Fargo to 4530 17th Ave S, Fargo, and that included is a proposed Order authorizing Chairman Karsky to sign on behalf of the Board. The conditions of the Order are: the applicant must secure the approval of the FDIC; the applicant must notify the Department when the facility becomes operational; the applicant has until March 10, 2006, to commence business at the proposed new location; and the applicant must seek approval from the Board or Commissioner if it appears the fixed asset limitation of 65% will be exceeded.

It was moved by Member Monson and seconded by Member Moldenhauer to approve the application by Union State Bank of Fargo to relocate its main office from 901 40th St SW, Fargo to 4530 17th Ave S, Fargo, and to authorize Chairman Karsky to sign the Order on behalf of the Board. The motion carried by a vote of 4 to 0, with Members Braseth, Daniel, and Henke absent.

President Johnson and Tony Ulher left the conference call at 9:40 a.m.

ITEM TO BE NOTED

Department of Financial Institutions

Articles of Amendment

American Trust Center, Dickinson, to change number of directors to not less than 3 nor more than 25, with the exact number to be established by resolution of the Board of Directors or shareholders.

LEGISLATION

Chairman Karsky reviewed the status of legislation with the Board indicating there have not been any real controversial bills; and the Department's budget has been heard on both sides, although the budget was amended on the House side because of another bill to increase the per diem expenses allowance and motel allowance.

Chairman Karsky discussed the credit union field of membership bill and indicated the banks were successful in stopping the “leap frogging” of credit unions going across the state.

The Board went into closed session at 9:45 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary